

## Message Text

CONFIDENTIAL

PAGE 01 PEKING 02371 031009Z

ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05  
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-09  
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 /130 W  
-----071241 040131Z /75

R 030226Z AUG 78  
FM USLO PEKING  
TO SECSTATE WASHDC 1559  
INFO AMCONSUL HONG KONG  
AMEMBASSY MANILA  
AMEMBASSY TOKYO

C O N F I D E N T I A L PEKING 2371

E.O. 11652: GDS  
TAGS: ENRG ETRD CH RP

SUBJ: SINO-PHILIPPINE LONG-TERM OIL AGREEMENT

1. ON JULY 26, VISITING PHILIPPINE MINISTER OF ENERGY, GERONIMO VELASCO AND CHINA NATIONAL CHEMICALS IMPORT AND EXPORT CORPORATION GENERAL MANAGER CHAO MAO-CHUN SIGNED A BILATERAL OIL AGREEMENT BY WHICH PHILIPPINES WILL PURCHASE APPROXIMATELY SIX MILLION TONS OF CHINESE SHENGLI CRUDE OVER A PERIOD OF FIVE YEARS. UNDER THE AGREEMENT, WHICH COVERS THE PERIOD JANUARY 1979 TO DECEMBER 1983, THE PHILIPPINES WILL IMPORT APPROXIMATELY 1.2 MILLION TONS PER YEAR.

2. PRICES ARE TO BE NEGOTIATED ON AN ANNUAL BASIS. ACCORDING TO THE PHILIPPINE EMBASSY COMMERCIAL CONSELOR IN PEKING, THE CHINESE WANT TO USE A FIXED FORMULA BASED ON OPEC PRICES; HOWEVER, THE TWO SIDES HAVE NOT AGREED ON WHICH PRICE TO USE. THE PHILIPPINE EMBOFF SAID THAT IF MIDDLE EAST LIGHT CRUDES ARE USED AS A REFERENCE PRICE, THE  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 PEKING 02371 031009Z

PRC "FRIENDSHIP" PRICE WOULD APPEAR QUITE CONCESSIONAL, BUT IF MORE COMPARABLE CRUDKES WERE USED, THE DIFFERENCE WOULD NOT BE GREAT. ACCORDING TO A PUBLISHED REPORT, THE NEW AGREEMENT IS VALUED AT APPROXIMATELY US DOLLARS 500 MILLION. SOURCE CONFIRMED THAT THIS "CLOSELY APPROXIMATES" THE ESTIMATED CIF VALUE OF THE AGREEMENT. INFERRED PRICE PER BARREL IS THUS ABOUT DOLLARS 10.96. (IN 1977,

PHILIPPINES PURCHASED 900,000 MT WORTH ABOUT DOLLARS 66.15 MILLION, OR ABOUT DOLLARS 9.67 PER BARRELL.).

3. FOR 1978, THE PHILIPPINES HAD PREVIOUSLY AGREED TO PURCHASE ONE MILLION MT OF OIL. THE CHINESE RECENTLY OFFERED AN ADDITIONAL 200,000 MT, WHICH THE PHILIPPINES WILL ALSO PURCHASE.

4. CHINESE CRUDE IS PRESENTLY TRANSPORTED TO PHILIPPINES IN FOUR SMALL (13,000 TO 18,000 TON) PHILIPPINE-CHARTERED TANKERS, TWO OF WHICH ARE PRC FLAG VESSELS AND TWO FROM PRC-ORIENTED HONG KONG FIRMS THIS ARRANGEMENT WILL CONTINUE; SOURCE SAID TWO SIDES HAVE NOT HAD DIFFICULTY IN THE PAST IN REACHING AGREEMENT ON SHIPPING TERMS. PRC PORTS CANNOT HANDLE VESSELS LARGER THAN 500,000 DWT. IF NECESSARY, PHILLIPINES CAN BUY FOB.

5. IN THE PAST, FILIPINOS HAVEMIXED THE HEAVY, WAXY SHENGLI CRUDE WITH LIGHTER CRUDES ON A 15/85 PERCENT BASIS BEFORE REFINING. SOURCE STATED THAT PHILIPPINES IS CONSIDERING BUILDING REFINING FACILITIES FOR HEAVIER CRUDE, PARTICULARLY SINCE OIL FROM NEWLY DISCOVERED PHILIPPINE OIL FIELDS IS EXPECTED TO HAVE SIMILAR CHARACTERISTICS. HE ADDED THAT PHILIPPINES IS ALSO CONSIDERING DIRECT BURING SOME OF THE CHINESE CRUDE FOR POWER GENERATION.  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 PEKING 02371 031009Z

6. COMMENT: WITH THE CONCLUSION OF THIS AGREEMENT, PHILIPPINES WILL BE CHINA'S SECOND LARGEST PETROLEUM CUSTOMER. CHINESE PETROLEUM SALES WILL PROVIDE PEKING WITH AN ASSURED NEW SOURCE OF FOREIGN EXCHANGE OVER THE NEXT FEW YEARS (PHILIPPINES HAD A DOLLARS 30 MILLION TRADE SURPLUS WITH CHINA IN 1977 DUE TO LARGE SALES OF RAW SUGAR AND COPPER CONCENTRATES). EXPANDING TRADE WITH THE ASEAN COUNTRIES IS, OF COURSE, CONSISTENT WITH CHINA'S POLITICAL OBJECTIVES FOR THE REGION.  
WOODCOCK

CONFIDENTIAL

NNN

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** PETROLEUM, AGREEMENTS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 03 aug 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978PEKING02371  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780318-1200  
**Format:** TEL  
**From:** PEKING  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t197808102/aaaadhsr.tel  
**Line Count:** 105  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Message ID:** 490e0358-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 2  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 11 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 1547279  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SINO-PHILIPPINE LONG-TERM OIL AGREEMENT  
**TAGS:** ENRG, ETRD, CH, RP, (VELASCO, GERONIMO), (CHAO MAO CHUN)  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/490e0358-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014